

MINUTES OF THE CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

May 30, 1996

The Capital Projects and Bond Oversight Committee met on Thursday, May 30, 1996, at 1:00 p.m., in Room 129 of the Capitol Annex. Representative Robert Damron, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Robert Damron, Chairman; Senator Bob Leeper; Representatives Jim Maggard and Tommy Todd.

Guests: Crit Luallen, Deputy Secretary, Governor's Executive Cabinet; Bill Hintze, Roger Burge, Bob Shimer, Governor's Office for Policy and Management; Jim Abbott, Danny Shearer, Department for Facilities Management; Bonnie Howell, Jim King, Patrick Hughes, Finance and Administration Cabinet; Tom Howard, Kim Blitch, Marilyn Eaton-Thomas, Office of Financial Management and Economic Analysis; Dennis Langford, Labor Cabinet; Dr. Robert Tarvin, School Facilities Construction Commission; David Bratcher, Economic Development Cabinet; Tom Engstrom, Ernie Tacogue, Department of Education; Kerry Carr, Kentucky School for the Blind; Bruce Bailey, Cabinet for Families and Children; Melanie Bailey, Keith Crim, Natural Resources and Environmental Protection Cabinet; Bob Bender, Hugh Smith, Department of Parks; George DeBin, Harry Enoch, Mary Allen, University of Kentucky; Tim Bennett, Mary Anne Delaney, Joe Ewalt, Mayor's Office, Lexington-Fayette Urban County Government; Don Judy, LRC.

LRC Staff: Mary Lynn Collins, Pat Ingram, Scott Varland, Esther Robison.

Press: Tom Loftus, Courier Journal; Bill Estep, Lexington Herald-Leader.

Senator Leeper made a motion to approve as submitted the minutes of the April 15, 1996 meeting. The motion was seconded by Representative Todd and approved.

800 MHz Trunked Statewide Radio System. Chairman Damron said, upon learning during the closing days of the 1996 Regular Session that the RFP (Request for Proposals) process for establishment of the pilot project for the 800 MHz radio system was terminated, he wrote to the Governor requesting more information on why the project was canceled. He said Margaret Greene responded that the Administration is exploring alternatives before pledging to such an expensive project, and is at this time neither endorsing or rejecting the 800 MHz technology. Chairman Damron said he has spoken with Crit Luallen, Deputy Secretary of the Governor's Cabinet and former Secretary of the Finance and Administration Cabinet, about this project on several occasions, and she convinced him of its value several months ago. He said he is convinced that such a statewide radio system is needed, noting that the 800 MHz trunked statewide radio system has also been identified as a high priority by the Capital Planning Advisory Board.

3. Correspondence regarding Kentucky State University's use of a like-kind exchange in its acquisition of the Kain Ford property adjacent to its campus. Like-kind exchanges are used in property acquisitions when the Seller of a piece of property wants to defer capital gains taxes and asks the Buyer to purchase a specified piece of property to then exchange for the Seller's property. By avoiding a cash transaction, the Seller defers state and local taxes on capital gains. Chairman Damron said, based on staff review of the recent acquisition by Kentucky State University (KSU), he wrote to Finance Secretary John McCarty requesting that he review the use of like-kind exchanges for tax deferral purposes in future state acquisitions. Chairman Damron said the Committee's staff is concerned that, since KSU is now in the chain of title for the property it purchased and exchanged for the property it wished to acquire, KSU may be subject to liability if the exchanged property is found to be environmentally contaminated.

First under New Business, Chairman Damron said Crit Luallen, Deputy Secretary of the Governor's Cabinet, and Bill Hintze, Deputy State Budget Director in the Governor's Office for Policy and Management, were present to report to the Committee on the agreement reached by Governor Paul Patton and Mayor Pam Miller of the Lexington-Fayette Urban County Government for the Commonwealth to drop the lawsuit filed by former-Governor Brereton Jones over Lexington's failure to construct a Cultural Center on property in Lexington known as the "Ben Snyder Block." Chairman Damron said the Committee has discussed the Cultural Center project on many past occasions. He said he is glad there will be a resolution of the state's lawsuit, because when 2 governmental entities sue each other at taxpayers' expense, only the lawyers

She said according to the original agreement the state was to fund the purchase of the Ben Snyder Block and LFUCG was to fund construction of the Cultural Center on that site. Then, when LFUCG was unable to fund the Cultural Center's construction, and LFUCG and then-Governor Brereton Jones were unable to come to an agreement acceptable to both, Governor Jones filed suit to recover for the Commonwealth its funds expended to acquire the Ben Snyder Block.

Deputy Secretary Luallen said the original agreement called for the state to invest \$18.5 million and Lexington to invest \$20 million in the World Trade/Cultural Center project. She said under the new agreement reached between Governor Patton and Mayor Miller to resolve the lawsuit, Lexington will invest an amount equal to or greater than \$20 million, including LFUCG's earlier investment of \$7.3 million in the Civic Center expansion to house the World Trade Center. Rather than constructing a single new Cultural Center, she said, LFUCG will invest \$8 million of local public funds in a number of new and existing cultural facilities: \$4,000,000 to renovate the Embry's and Lowenthal buildings on the Ben Snyder Block to provide a Black Box Theater; \$1,000,000 for the University of Kentucky Basketball Museum in the Civic Center; \$1,000,000 to renovate the city-owned State Theater on Main Street; \$500,000 to restore (after acquiring) Lyric Theater at 3rd and DeWeese; \$250,000 for the Lexington Children's Theater; and \$1,000,000 to renovate the current courthouse as a local history museum after a new justice center is built. Also, \$5,000,000 in private sector funds will be raised to support these projects. Deputy Secretary Luallen said most of the additional local public funds to be invested are included in Mayor Miller's new budget just released for the next fiscal year, for the enrichment of cultural opportunities in downtown Lexington.

Deputy Secretary Luallen noted that the 1996 General Assembly authorized a new Justice Center for Fayette County, and a committee appointed by Mayor Miller has recommended that this is the best use for the Ben Snyder Block. She said this site is the top choice of LFUCG for the new Justice Center, and Mayor Miller will work with the Administrative Office of the Courts to that end. Since the state will own the site of the Justice Center, the total scope of the project will be reduced. Therefore the rental payments the state will pay for the state court space, which will support local bonds issued for the Justice Center's construction, will be reduced.

Deputy Secretary Luallen said, thus under the new agreement, the LFUCG will fulfill its obligations, and the Ben Snyder Block hopefully will serve as the site for the

Chairman Damron asked if the revised plan will comply with the official statements of the state bonds used to purchase the Ben Snyder Block properties for a Cultural Center. Mr. Hintze said the agreement being drafted will have to be written in a way to satisfy the bond holders and the bond rating agencies. But, he said, the new plan does comply with the broad purpose in the indenture for the original bonds. He confirmed that the new agreement will be provided to the Committee when it is finalized.

Chairman Damron asked whether additional land will have to be acquired if the new Justice Center is to be built on the Ben Snyder Block. Mr. Hintze said, while the Ben Snyder Block seems to be the logical choice as the site for the Justice Center, it would be premature and not legally sound to commit the Administrative Office of the Courts (AOC) and LFUCG to the site. He said a site commission will select and must approve the site for the Justice Center. He said if the Ben Snyder Block is selected as the site - given the requirements of the other planned capital construction projects and without benefit of architectural renderings for the new Justice Center - additional land may be needed. He said, however, the AOC did foresee a possible need for additional land and the expanded project scope was authorized by the General Assembly for the Center.

Representative Maggard reminded Committee members that former-Governor Jones and Mayor Miller reached an agreement last year to settle this dispute, and the Lexington-Fayette Urban County Council reneged on that agreement and refused to comply with it. He asked if there is any assurance that the Urban County Council will in fact allocate local funds to comply with this agreement. Deputy Secretary Luallen said most of the additional local funds have been approved by the Urban County Council for inclusion in LFUCG's budget for next fiscal year.

Chairman Damron said the new Memorandum of Understanding (MOU) for the project must tie up all the loose ends, because the original project agreement was clearly insufficient. Deputy Secretary Luallen said the state learned from that experience, and both the Finance Cabinet lawyers and the LFUCG lawyers know the new MOU has to be a firm, binding agreement.

Senator Leeper asked what specific amounts are included in LFUCG's next budget. Mr. Tim Bennett of the Mayor's Office said LFUCG has already expended \$7.3 million for the Civic Center expansion. He said \$5 million is included in LFUCG's budget for next year; about \$1,250,000 is planned for fiscal year 1998 and \$750,000 is

Chairman Damron asked if it might be premature to renovate the Embry's and Lowenthal buildings to provide the Black Box Theater, and if it might be necessary to demolish those 2 buildings to have sufficient space for the Justice Center. Mr. Bennett said Lexington believes that the Justice Center can be constructed on the site with the Embry's and Lowenthal buildings intact. He stated that it probably will be necessary to demolish the Ben Ali Parking Garage (which was purchased along with the other parcels on the Ben Snyder Block by the Commonwealth).

Representative Maggard made a motion to approve the Lexington World Trade/Cultural Center project as amended. The motion was seconded by Representative Todd and approved by unanimous voice vote.

Chairman Damron said next on the agenda was a report from Mr. Dennis Langford, Director of the Labor Cabinet's Division of Employment Standards and Mediation, on the Labor Cabinet's interpretation of Senate Bill 226 enacted by the 1996 General Assembly. SB 226 eliminates prevailing wage law exemptions for public schools, universities, and local governments. Chairman Damron said he has received many phone calls from school districts asking when and how SB 226 will take effect. He said, in light of those requests and the record number of 27 school bond issues submitted for Committee review this month, he asked that a representative of the Labor Cabinet attend today's meeting and respond to these questions. He thanked Mr. Langford for attending on such short notice.

Mr. Langford said Joe Norsworthy, Secretary of the Labor Cabinet, conveyed his apology for being unable to attend today because of ongoing hearings about the state workers' compensation law. Mr. Langford said the Labor Cabinet's interpretation of SB 226 is that if a school or local government project is advertised for bids before July 15, 1996, the effective date of SB 226, the project will fall under the current law and retain the current exemption, and the construction contracts for these projects are to be executed in a timely manner. Mr. Langford said if a project is submitted for bids after July 15, 1996, then the project will fall under the new law and only the specific exemptions stated in SB 226 will apply.

Chairman Damron said that answered the question he has gotten about where a project has to be in the process by July 15 to avoid being subject to the new prevailing wage law. He asked how soon information will be available on the new prevailing wage rates for counties around the state. He said he appreciated the information Secretary

Chairman Damron asked how current prevailing wage rates were established. Mr. Langford said those rates were also established based on input at public hearings.

Senator Leeper voiced the concern that some projects would be bid prematurely to avoid the July 15 deadline and would not actually be started until many months later. He suggested that perhaps someone should be watching to make sure that those project contracts are in fact executed in a timely manner. Mr. Langford said he hoped those situations would not occur.

Chairman Damron asked if a date has been set by which project contracts will have to be executed. Mr. Langford said a specific date has not yet been established.

Representative Maggard noted that SB 226 establishes a threshold of \$250,000 for projects to fall under the new law, and he asked if local governments or school districts will be able to break a project up into pieces to avoid being subject to the new law. Mr. Langford said SB 226 specifically prohibits artificially breaking up projects to avoid the new law. He also noted that the Labor Cabinet has developed a report, which was provided, comparing the new requirements to those under the old law.

Representative Todd asked if notification will be sent out to school districts that they need to get their bid proposals and advertisements for bids out by July 15 to fall under the old law. Mr. Langford said the Labor Cabinet is deeply involved in the ongoing hearings about workers' compensation, but the Cabinet will try to notify school districts. He noted the Labor Cabinet, as well as legislators, is getting a lot of phone calls on this.

Representative Todd said school districts need to know about this so they can avoid additional costs for their projects. Chairman Damron said that is one reason he asked the Labor Cabinet to be here today, to help get the word out. Noting that representatives of the Department of Education and the School Facilities Construction Commission were present at the meeting, Chairman Damron said those agencies, hopefully, will also be spreading the word.

Representative Maggard asked if all of the projects in state government's biennial budget will now have to meet the prevailing wage standards. Mr. Hintze of GOPM said that is correct.

Mr. Jim Abbott, Director, Division of Real Properties, was present to report the amortization of the cost of leasehold improvements over the remaining term of 2 state leases:

1. PR-3031 - Transportation Cabinet (Franklin County). Transportation requested that 273 sq. ft. of the warehouse/storage space in this leased property (total 9,000 sq. ft. in Millcreek Park, Frankfort) be renovated to provide office space for 2 additional employees. The work involves new interior walls, doors, electrical, HVAC, telephone, and carpeting. The lessor submitted 2 written estimates for the work - \$6,796 and \$6,292.50. Transportation accepted the lower bid, which was submitted by Randle-Davies Construction Company, a company owned by the property lessor, Edwin Randle, Jr. The lessor requested that interest at 9.25% (\$701.58) be paid on the amortized amount. Also, the lessor agreed to extend the term of the lease for 2 years at the existing base rental rate of \$3.50 per sq. ft., providing a new lease expiration date of June 30, 1998. Therefore, \$6,994.08 (\$6,292.50 plus interest of \$701.58) will be amortized over the remaining term of the lease, raising the cost of the lease per sq. ft. from \$3.50 to \$3.84, and the annual cost of the lease from \$31,500 to \$34,560.

2. PR-3460 - Department of Workers Claims (Franklin County). Workers Claims requested that the HVAC system in this leased property (38,977 sq. ft. in Building C, Perimeter Park West, US 60, Frankfort) be upgraded to provide a smoking room. The upgrade will provide for air to be exchanged 26 times per hour, up from the current 7 exchanges per hour. Two written estimates were submitted - \$3,548 and \$3,650. Workers Claims accepted the low bid, which was from Sorg Heating and Cooling. The lessor requested that interest at 9.25% (\$328.19) be paid on the amortized amount. The lease contract's expiration date is unchanged on June 30, 1999. Therefore, \$3,876.19 (\$3,548 plus interest of \$328.19) will be amortized over the remaining term of the lease, raising the cost of the lease per sq. ft. from \$7.80 to \$7.83, and the annual cost of the lease from \$304,021 to \$305,190.

Chairman Damron said lease modifications of less than \$50,000 are required to be reported to the Committee within 30 days after execution, but no Committee action is required.

Mr. George DeBin, Assistant to the President for Fiscal Affairs at the University of Kentucky (UK), reported on 2 capital projects at the University. First, he said, UK is requesting approval to increase the scope of work for the addition to the Center for Academic and Tutorial Services (CATS) at Memorial Coliseum. The CATS program

Maggard made a motion to approve the privately-funded scope increase for the project. The motion was seconded by Representative Todd and approved by unanimous voice vote.

Mr. DeBin also reported UK's intent to reallocate \$500,000 in state bond funds, previously approved for its Radon Abatement project from the 1994-96 General-Fund Supported Life-Safety Projects Bond Pool, to its Hazardous Materials Building project, now called the Environmental Quality Management Center. The Hazardous Materials Building was previously approved for \$1,600,000 from the 1992-94 Life-Safety Projects Bond Pool. Mr. DeBin said the low bid for the Hazardous Materials Building was \$2,500,000, and the 1996 General Assembly subsequently authorized an additional \$900,000 in restricted funds for the project. He said the Radon project was completed without using the bond funds, and the Radon project funds will serve as a substitute for part of the additional \$900,000 authorization. He said \$400,000 from UK's contingency fund will provide the balance of the additional restricted funds authorized in 1996 for the Building. (The Council on Higher Education indicated it approved this reallocation of funds from one life-safety project to another, based on the understanding that UK's radon abatement issues are resolved and state funding will not be requested for that purpose in future biennia.) Chairman Damron said Committee approval action was not necessary for this reallocation of funds, and he thanked UK for providing the report.

Next on the agenda were the bond activity reports from the Office of Financial Management and Economic Analysis (OFMEA). Ms. Marilyn Eaton-Thomas of the Kentucky Infrastructure Authority (KIA) reported 2 new loans from KIA's Fund B, the Infrastructure Revolving Loan Fund. First was a Fund B loan of \$2,242,735 to the City of Mt. Sterling, Montgomery County, to provide 100% funding for a project to construct a ground water storage facility with 5 MGD (million gallons per day) storage capacity with 3 miles of 12-inch treated water line, to help the water system to meet peak demands and assure industrial customers a continuous and adequate water supply. Ms. Eaton-Thomas said Mt. Sterling has experienced tremendous economic growth in recent years and this has put a strain on the City's infrastructure, including its water treatment and distribution system. Also, if a problem occurs with the existing elevated water tank, service must be shut off and service to industrial customers discontinued. Ms. Eaton-Thomas said the water system improvements will serve an industrial park near I-64, including a new plant owned by Hoffman Engineering, an electrical cabinet manufacturer who has committed to creating 400 new jobs.

an average monthly residential combined water/sewer rate of \$24.58 in the City and \$28.81 in the County.

Representative Maggard made a motion to approve the Fund B loan for the project. The motion was seconded by Senator Leeper and approved by unanimous voice vote.

Ms. Eaton-Thomas also reported a Fund B loan of \$777,990 to the City of Oak Grove, Christian County, to provide primary funding to construct a 500,000 gallon elevated water storage tank and connection near the I-24/US Hwy. 41A interchange, to support development of the area, to ensure adequate pressure for fire protection, and to meet demand. Three businesses have initially committed to creating at least 130 jobs: Max Arnold & Sons, an oil and gas distributor, will create 100 new jobs; Waffle House will create 25; and Hampton Inn will create 9. In addition, 5 motels, 2 convenience stores, and 206 residential units have been submitted for approval to locate at the interchange.

KIA reported that Oak Grove is located adjacent to the Ft. Campbell Military Base, and its economy is primarily retail and service oriented. As other military bases have been downsized, personnel have been transferred to Ft. Campbell, supporting development in the area. The City of Oak Grove has an adequate water source for current and future needs, since it connected with the City of Fort Campbell's system in the summer of 1995; however, storage capacity is becoming critical.

Other funding for the project includes a land donation by local government valued at \$10,000, for a total project investment of \$787,990. The Fund B loan will be at 1.5% for 20 years. There is no rate increase associated with the project.

Senator Leeper made a motion to approve the Fund B loan for the project. The motion was seconded by Representative Todd and approved by unanimous voice vote.

In response to a question from Chairman Damron, Ms. Eaton-Thomas said the Kentucky Division of Water monitors KIA projects for compliance with state and federal prevailing wage laws.

KIA also provided for the Committee's information status reports on its Funds A, B, C, and E.

a. Barren County - with gross proceeds of \$3,780,000, to construct a new Hiseville Elementary School. Annual SFCC debt service participation of \$20,394 and locally-funded debt service of \$274,125.

b. Bath County - with gross proceeds of \$165,000, to complete upgrading wiring for technology at the High School, Middle School, and the central office. Annual SFCC debt service participation of \$13,200 (100%).

c. Berea Independent (in Madison County) - with gross proceeds of \$1,125,000, for renovation/addition projects at the Community School. Annual SFCC debt service participation of \$4,091 and locally-funded debt service of \$48,844.

d. Calloway County - with gross proceeds of \$2,630,000, to refund school district bonds sold in 1986, 1988, and 1990. Annual SFCC debt service participation of \$235,947 and locally-funded debt service of \$87,925.

e. Campbell County - with gross proceeds of \$7,700,000, to renovate the old High School into a new Middle School. Annual SFCC debt service participation of \$51,422 and locally-funded debt service of \$559,000.

f. Casey County - with gross proceeds of \$1,250,000, for Phase II improvements at the High School (in classrooms, computer and business labs, library, restrooms). Annual SFCC debt service participation of \$26,950 and locally-funded debt service of \$77,480.

g. Clay County - with gross proceeds of \$2,000,000, for Phase II addition and renovation projects at the Middle School. Annual SFCC debt service participation of \$9,426 and locally-funded debt service of \$161,564.

h. Elizabethtown Independent (in Hardin County) - with gross proceeds of \$970,000, to fund an addition to Helmwood Heights Elementary School. Annual SFCC debt service participation of \$8,900 and locally-funded debt service of \$72,270.

i. Floyd County - with gross proceeds of \$3,000,000, for a Phase II addition project for Prestonsburg High School. Annual SFCC debt service participation of \$92,000 and locally-funded debt service of \$148,000.

j. Grant County - with gross proceeds of \$335,000, to fund site preparation for a new high school. Annual SFCC debt service participation of \$23,312 and locally-funded debt service of \$4,055. (The District levied a 5¢ growth tax to help support debt service.)

k. Hardin County - with gross proceeds of \$3,605,000, to construct a new elementary school. Annual SFCC debt service participation of \$65,000 and locally-funded debt service of \$230,000.

l. Johnson County - with gross proceeds of \$7,360,000, to construct a new elementary school, and to complete renovation/addition projects at 2 elementary

- o. Menifee County - with gross proceeds of \$190,000, to replace the older (1958) portion of roof on the Elementary and High School. Annual SFCC debt service participation of \$11,000 and locally-funded debt service of \$4,200.
- p. Metcalfe County - with gross proceeds of \$280,000, to replace roofs on 3 elementary schools and a middle school, and to rewire and convert heat to natural gas at an elementary school. Annual SFCC debt service participation of \$15,977 and locally-funded debt service of \$7,499.
- q. Ohio County - with gross proceeds of \$6,200,000, to renovate an elementary school. Annual SFCC debt service participation of \$11,078 and locally-funded debt service of \$518,250.
- r. Paintsville Independent (in Johnson County) - with gross proceeds of \$525,000, to renovate the interior of Paintsville High and Middle School. Annual SFCC debt service participation of \$8,646 and locally-funded debt service of \$32,900.
- s. Pulaski County - with gross proceeds of \$1,350,000, for a Phase III renovation project at the High School. Annual SFCC debt service participation of \$42,808 and locally-funded debt service of \$74,905.
- t. Scott County - with gross proceeds of \$1,415,000, for an advance refunding of school district bonds sold in August 1987. Annual SFCC debt service participation of \$151,530 (100%).

Bond Payee Disclosure Forms and additional preliminary information for each proposed new bond issue were provided. The Grant County bond issue is the only issue of the 20 requiring an increase in its local school tax rate.

Chairman Damron said the significant number of school bond issues reported to the Committee this month was one of the reasons he asked the Labor Cabinet to attend today's meeting. He asked if Mr. Howard thought the timing of the prevailing wage law was one of the factors in so many school bonds being sold at this time. Mr. Howard said he could not speak to that issue, because his expertise is financial. From the financial perspective, he said, there are a number of factors that can affect the decision to sell bonds at a particular time and how well the bonds sell. For instance, he said, right now it appears interest rates are starting to go up a little. He said underwriters nationwide bid on Kentucky bonds and there usually is good competition; though with an increased supply of Kentucky bonds on the market, it is impossible to predict how underwriters will bid on specific issues. With regard to potential bond buyers within the state, he said, interest rates will also be rising here, and the volume of bonds available and the volume already held by banks can be factors.

issues reported today total \$50.6 million, which is a relatively large volume, but a national underwriter such as Merrill Lynch would have no trouble handling it.

Chairman Damron said he believes the new prevailing wage law has helped create this spike in demand within the state, and he asked Mr. Howard to track how the school bonds sell over the next several months, to determine if this sudden volume has affected the way the bonds sell on the market. Mr. Howard said he would track the bonds and report back to the Committee.

Representative Todd made a motion to approve the 20 SFCC-assisted school bond issues. The motion was seconded by Senator Leeper and approved by unanimous voice vote.

Also reported was the proposed issuance of School Building Revenue Bonds, Series 1996, with 100% locally-funded debt service and no SFCC debt service participation, for:

- a. Bracken County - with gross proceeds of \$7,210,000, to construct a new high school. [The District voted in August 1995 to raise taxes to max Tier I (16.8¢ increase), specifically to build a new high school.]
- b. Crittenden County - with gross proceeds of \$935,000, to complete renovations at the Middle School.
- c. Fulton County - with gross proceeds of \$575,000, to construct a new central office.
- d. Garrard County - with gross proceeds of \$895,000, to install a new roof and repair the boiler at the High School.
- e. Mason County - with gross proceeds of \$965,000, to complete additions at the Middle School.
- f. Russell Independent (in Greenup County) - with gross proceeds of \$6,600,000, to construct a new elementary school.
- g. Warren County - with gross proceeds of \$6,360,000, to renovate Central High School.

Bond Payee Disclosure Forms and additional preliminary information for each bond issue were provided. Chairman Damron said the Committee's staff had reviewed these 7 bond issues and found that all required information has been provided. The Bracken County bonds are the only issue involving a local school tax rate increase.

KHC's current private activity bond allocation and will provide funds for the immediate purchase of mortgages. Series B and C are short-term issues (6-12 months) that extend the existing bond issuing authority by utilizing mortgage prepayments. Interest paid on the Series C securities will be subject to alternative minimum tax (AMT) treatment; the Series B securities will be non-AMT. The short-term securities offer an interest expense savings relative to long-term interest costs; when the short-term funds are needed to purchase mortgages, the securities will be converted to long-term bonds.

Mr. Howard said the Series A bonds are expected to sell by negotiation on June 4, at 6.07% for 32 years. He said the Series B and C bonds are expected to sell by negotiation on June 19, at rates around 3.7%-3.9% with 6-12 month terms.

Representative Todd made a motion to approve the new KHC bond issues. The motion was seconded by Representative Maggard and approved by unanimous voice vote.

Follow-up reports (approval letters) were provided for 2 previously approved bond issues:

1. University of Kentucky Housing and Dining System Revenue Bonds, 1996 Series P - approved by the Committee at its February 28, 1996 meeting. The Series P bonds, with gross proceeds of \$2,140,000, will fund renovation projects at 3 UK dorms. The bonds sold on April 30, 1996 by competitive bid, at 5.43% for 20 years, and with an A1 rating.

2. Kentucky Economic Development Finance Authority (KEDFA) Hospital Facilities Refunding Revenue Bonds, Green River Regional MH/MR Board, Inc. - a conduit bond issue approved by the Committee at its March 1996 meeting. The proceeds of \$6,020,000 from this issue will be used to refund the Series 1985 City of Owensboro, Kentucky Hospital Revenue Bonds issued to finance the Children's Psychiatric Hospital of Western Kentucky. The new bonds sold on April 25, 1996 by negotiation, with a rating of Aa3. The true interest cost of the issue is 8.8%; its maturity date is November 1, 2010. Chairman Damron noted that Mr. David Bratcher of KEDFA was present if Committee members had any questions on this bond issue. (The Commonwealth serves merely as a "conduit" for KEDFA bond issues. The Commonwealth issues bonds at a tax-exempt rate for the benefiting institution but the benefiting institution has full responsibility for repayment of the bonds. As required by statute, Official Statements for KEDFA bond issues clearly stipulate that the

Kentucky Dam Village State Resort Park. This project was initiated with an allocation of \$29,920 from the Department of Parks' Miscellaneous Maintenance Account in the 1990-92 biennium; the 1994 General Assembly authorized \$485,000 in General Funds to replace the Head Dock, for a total previously authorized scope of \$514,920.

Mr. Hintze said this Dock, which is state-owned, has presented a lot of problems over the years, in part because the Marina is huge and is located in a very windy area; the Dock catches in the wind and breaks. The Head Dock now is slowly sinking due to serious deterioration of its flotation system. After the design for replacement of the Dock was scaled back to the very minimum needed, the project construction cost estimate was \$435,745. When the project was bid, only 2 bids were received: \$570,000 and \$733,000. Commissioner Armond Russ, Department for Facilities Management, has cited concerns that if the project is further delayed by rebidding, damage to both public and private property might result as the Dock continues to deteriorate. The new total project scope will be \$653,900.

Mr. Hintze said it is urgent that this project be completed as quickly as possible, because we are entering the busy season for the Marina when it generates most of its revenues, and the situation will be hazardous if the Dock is not replaced now. Also, he said, with the disparity in the bids received for this project, the cost will probably be higher if the project is rebid.

(In June 1995, the Finance and Administration Cabinet reported a \$500,000 emergency account allocation for an overhaul of the Marina's cable anchoring system to secure Piers No. 1, 2, 3, and 4. That emergency project did not address problems with the Head Dock.)

Allocations from the emergency account must be reported to the Committee within 30 days; no Committee action is required.

Next reported was an allocation of \$175,000 from the emergency repair, maintenance and replacement account for emergency roof repairs to the Scoggan Classroom Building at the Kentucky School for the Blind in Louisville. While roof repair work was being done in the Fall of 1995, additional damage was found and the Finance Cabinet determined that a new roof was needed. The Department of Education reported it has committed all of its available capital funds to a project required by the State Fire Marshal at the Kentucky School for Deaf.

County. The system also has been cited by the State Fire Marshal as inadequate. Also, an advance of \$25,000 has been made from the emergency account to replace baseboard heaters at the Cardinal Treatment Center Facility, a juvenile residential facility located in Louisville. The baseboard heaters have undergone severe deterioration, and the exposed, sharp metal edges of the baseboard heaters have been identified as a safety risk.

Mr. Hintze said the Miscellaneous Maintenance Pool for the former Department for Social Services, now the Cabinet for Families and Children, is depleted for the current year, but both of these emergency account advances will be repaid immediately when new money is available on July 1, 1996 in the Cabinet's Maintenance Pool for the new fiscal year.

Next reported was an allocation of \$200,000 from the state's capital construction and equipment purchase contingency account to fund a scope increase (2.8%) for the Lodge Construction/Infrastructure project at Dale Hollow State Park. This project, prior to today's action, had a total authorized scope of \$7,530,800, based on action by the General Assembly in 1990, 1992, and 1994, along with Capital Projects Committee approval for scope increases in June 1993 and November 1995.

Mr. Hintze said the Cumberland County Water District has indicated it is unable to fund the up-front cost of extending water service to the new 30-room Lodge without state assistance. He noted the new Lodge is a long distance from the Water District's existing lines. The total assistance to the Water District would be \$290,000: \$200,000 from the contingency account and \$90,000 still uncommitted in the project account. Mr. Hintze said the Finance Cabinet has been negotiating with the Water District and the Public Service Commission, and the PSC has given its preliminary approval for a lower water rate for the Lodge over a set term to defray this additional cost to the state. He noted the new Lodge is expected to be ready to open in January 1997. The new total project scope will be \$7,730,800.

Senator Leeper asked over what term the rate would be adjusted to repay the state its additional cost; reports to Committee staff had indicated a possible 99-year term, which he thought was too long. Mr. Hintze said he hoped it would be before 99 years. Mr. Bob Bender, Deputy Commissioner, Department of Parks, said the term is still under negotiation and not yet firmly established. Senator Leeper expressed concern that the water rate may be set high for the Lodge in order to subsidize the

Chairman Damron said he agreed at this point it is cheaper for the state to assist the Water District than to build its own water treatment facility for the Lodge, a cost estimated at \$500,000. He asked why the project architect or engineer did not address this when they were planning the project, a service for which the state paid them. Mr. Hintze said a project's original scope is a general number, and while estimated costs are identified, some aspects are not necessarily specifically planned. In this instance, he said, the state hoped the locals would come through, but that did not work out.

Mr. Bender also noted that early architect/engineer estimates of the cost to provide water service were around \$90,000; now the Water District is placing the cost at \$290,000. He said he believed this is a new water district; one local water district had recently acquired another. Chairman Damron said if this is a new water district, it may be figuring the state has to have water at the new Lodge and it has deep pockets.

Representative Todd said, however the situation developed, the Lodge has to have water, and he made a motion to approve the contingency allocation for the project. The motion was seconded by Representative Maggard and approved by unanimous voice vote.

Mr. Hintze said next to report was small cost overrun for the new Shelbyville National Guard Armory. The project, prior to today's action, had an authorized scope of \$1,025,000, based on action by the General Assembly in 1990, 1992 and 1994, and Capital Projects Committee action to approve a cost overrun in August 1994. Mr. Hintze said the Finance Cabinet is requesting approval to transfer \$1,300 in agency funds (.14% increase) to finish paying for a radio system in the Armory, the final cost of which slightly exceeded the remaining balance in the project account. The \$1,300 would come from the Department of Military Affairs' agency receipts account. The new total project scope will be \$1,026,300. Senator Leeper made a motion to approve the cost overrun for the project. The motion was seconded by Representative Todd and approved by unanimous voice vote.

Mr. Hintze said that House Bill 379, the 1996 Executive Budget Bill, contains a reporting requirement that any project funded from the State-Owned Dam Repair Pool and estimated to cost over \$400,000 be reported to the Capital Projects and Bond Oversight Committee. He noted that not very many projects are funded from the State-

project, which was authorized at \$858,000 in restricted funds in FY 1997, to the current fiscal year so the work can be completed prior to the next football season.

Mr. Hintze said the Finance Cabinet also reported its approval for the Public Service Commission (PSC) to accelerate to the current fiscal year preliminary work for construction of its new building, which was authorized for a total of \$5,444,000 in FY 1997. He said this will enable the PSC to proceed with appraisal and sale of its Lexington Meter Lab building, selection of a building site in Franklin County, and advertisement for consulting services. He said the preliminary work will be funded from authorized restricted funds of \$760,000 in an escrow account which are available in the current year. In response to a question from Chairman Damron, Mr. Hintze said several possible sites for the new building are being considered, but no final decision has yet been made.

Chairman Damron noted that several items were provided for the Committee's information:

1. A staff report on legislation considered and/or enacted during the 1996 Session that relates to the Committee's work.
2. New regulations proposed by the Finance and Administration Cabinet, which, Chairman Damron said, incorporate some provisions included in bills that were not enacted during the 1996 Session - specifically, provisions setting out the process the Finance and Administration Cabinet will follow when it delegates its purchasing authority to another agency, including a local government, and provisions governing the use of Memoranda of Understanding and Memoranda of Agreement by state agencies. Chairman Damron said he appreciated Finance Secretary John McCarty's response to concerns raised by the Committee in these areas.
3. A list of underwriters and bond counsel firms prequalified to respond to requests for proposals for Fiscal Year 1997.
4. Recent news articles that relate to the Committee's work.

Chairman Damron said the next meeting of the Committee is scheduled for Tuesday, June 25, 1996, at 1:00 p.m. He noted that if a special session is called in July, the Committee will try to schedule its July meeting during the session. There being no further business to come before the Committee, the meeting was adjourned at 2:25 p.m.